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TAGS: EPET ENRG EINV SENV CA
SUBJECT: Signs of Life for Northern Canadian Gas Through the Mackenzie Pipeline

¶1. Summary: The contents of a long-delayed regulatory report on the proposed Mackenzie Valley natural gas pipeline has brought some optimism back to project proponents. The pipeline would bring 1.2 billion cubic feet (bcf) of northern Canadian gas per day from the Northwest Territories' Mackenzie Valley to Alberta and on to North American markets. The project has been postponed for three decades pending settlement of aboriginal land claims and development of a Joint Review Panel (JRP) report examining the potential environmental, socio-economic and cultural effects of the project. Finally issued in December 2009, the JRP report was positively received by project proponents, including ExxonMobil and ConocoPhillips. As Canada's National Energy Board prepares to launch in April its six-month regulatory review, the spotlight is on negotiations with Ottawa for federal fiscal support, without which proponents say the project cannot move forward. While the companies will not make a final investment decision until all regulatory hurdles are cleared and economic analyses completed, they argue that the North American market needs gas from the Mackenzie pipeline to complement the shale gas coming on line. End Summary.

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Mackenzie Valley Pipeline Proposal - Decades in the Making

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¶2. A Mackenzie Valley pipeline was first proposed more than forty years ago, but was shelved after the federal government accepted a 1977 report, released by Justice Thomas Berger, recommending that a pipeline be postponed for ten years until aboriginal land claims had been settled.

¶3. In October 2004, Calgary-based Imperial Oil (70% owned by ExxonMobil), the lead partner in the proposal, finally filed its application to build the 1,200 km pipeline with an initial capacity to transport 1.2 bcf of gas per day. The pipeline would run from Inuvik, Northwest Territories (NWT), along the Mackenzie River valley to a point just inside the Alberta border where it would interconnect with TransCanada Pipeline's Alberta system providing access to North American markets. A separate natural gas liquids pipeline would transport up to 4,000 cubic meters per day of natural gas liquids from Inuvik to Norman Wells, NWT where it would join an existing oil pipeline to southern markets.

¶4. In addition to Imperial, project partners include the Mackenzie Valley Aboriginal Pipeline Group, ConocoPhillips Canada, Shell Canada and ExxonMobil Canada. The companies have interests in the three anchor fields: Taglu (Imperial); Parsons Lake (ConocoPhillips and ExxonMobil); and Niglintgak (Shell). The anchor fields initially would produce a total of 823 million cubic feet (mmcf) per day.

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Long-Awaited Initial Regulatory Report Finally Completed

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¶5. One of the biggest stumbling blocks to the project turned out to be the Joint Review Panel (JRP), a board of seven independent members appointed in August 2004 by then-federal Environment Minister Stephane Dion. Intended to combine aboriginal and federal regulators with oversight over the pipeline route, the JRP took on a life of its own. Unrestricted by deadlines, members repeatedly postponed their report, eventually issued in December 2009. The cost of their work was reportedly more than $18 million (cdn).

¶6. The panel examined the potential environmental, socio-economic and cultural effects of the project and concluded that, provided its 176 recommendations are fully implemented, the adverse impacts of the project and associated northwest Alberta facilities "would not likely be significant" and the project and those facilities "would likely make a positive contribution towards a sustainable northern future."

Report Contains "Nothing Insurmountable"

¶7. Project proponents welcomed the report's conclusion that the project should move forward along the lines of project description and original routing filed in Imperial's application. Representatives of Imperial Oil and the Aboriginal Pipeline Group characterized the recommendations as "nothing insurmountable" and something they "could absolutely work with." Proponents were required to submit by late January comments on the report to the National Energy Board (NEB) - the lead federal regulator - and those comments largely focused on procedural issues.

Next Steps Culminating in Final Decision

¶8. The NEB has set dates of April 12-25, 2010 to hear final arguments on applications to construct the pipeline and related facilities. During the final argument phase, applicants or intervenors in the NEB hearing process will have the chance to make their case to the NEB either for or against the project. Final arguments must be based on evidence that has already been presented to the NEB relating to the engineering, safety and economic aspects of the project. The NEB plans to release its final decision in September - just under six years after the project application was filed.

¶9. Meanwhile, negotiations with the federal government for fiscal terms that started under the previous Liberal government have moved slowly and are cloaked in secrecy. The companies say costs for the pipeline have soared from $7 billion to $16.2 billion (cdn) during the six-year review process. Company representatives tell us that they have targeted federal support in the "hundreds of millions of dollars" in some combination of loan or other fiscal guarantees that lower the cost of capital; funding for infrastructure development; and some assurances aimed at offsetting regulatory uncertainty (e.g., compensation if regulatory approval is denied).

¶10. Before the NEB launches final arguments in April, the project proponents hope the federal government will pledge sufficient government assistance to get them through the regulatory and project cost development phase - approximately three years at a cost of around $400 million dollars (cdn). A definitive investment decision in 2013 will depend on final micro and macro economic analyses, the real and projected costs of inputs such as steel and labor, projected gas demand and prices, and the amount of government support going forward. If the project proceeds, construction would stretch over four winter building cycles.

But Do We Need More Gas?

¶11. Project proponents tell us they are convinced that natural gas from both the Mackenzie pipeline as well as the proposed Alaska North Slope pipeline is necessary over the next 25-40 years to compensate for declining conventional gas production, even considering significant amounts of North American shale gas coming on line. They enumerate the benefits of the proposed project to the Northwest Territories and Canada in terms of employment, training, economic development, and consolidation of what many refer to as Canadian sovereignty over the north. They also point out that the Joint Review Panel recommended that the government engage with industry in a revenue-sharing agreement. One of the interested companies told us they are encouraging supportive Aboriginal leaders to voice publicly the importance of resource development to their communities' interests and the need for government support for this project.

Comment

¶12. Over the past eighteen months, many Canadian forecasters had ceased factoring in possible shipments through the Mackenzie pipeline due to the repeated delays in issuance of the Joint Review Panel report, low natural gas prices, and increasing unconventional North American gas supply. Given the largely positive nature of the JRP report, project proposals are now expressing cautious optimism (although some analysts still question the need for Northern gas at this time). As portrayed by industry, the clincher will be the willingness of the federal government to provide fiscal and regulatory assurances - a tough sell in the current budgetary environment. If the project goes forward and runs smoothly (which the project's history shows is no sure thing), first gas could be seen as early as 2017.

LOCHMAN